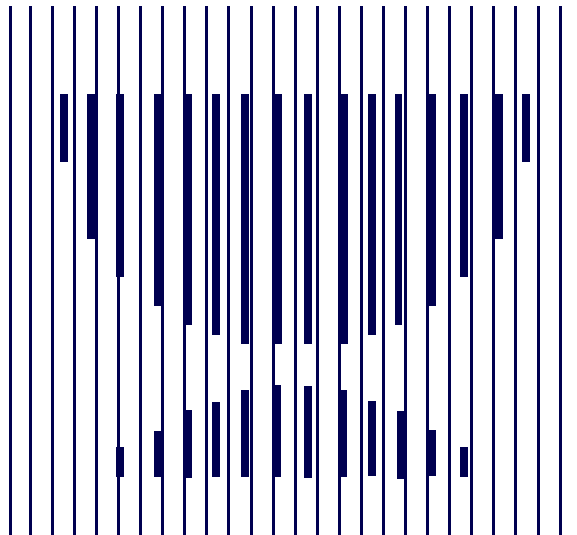


CBO MEMORANDUM

TIME-LIMITING FEDERAL DISABILITY BENEFITS

February 1997



CONGRESSIONAL BUDGET OFFICE

CBO

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CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

NOTE

Numbers in the text and tables of this paper may not add to totals because of rounding.

Both Social Security Disability Insurance and the Supplemental Security Income disability program have grown dramatically over the past decade. Congress has responded to that growth by enacting several measures designed to reduce the size of those programs. At the request of Congressman Sam M. Gibbons when he was the ranking minority member of the Committee on Ways and Means, this memorandum examines the policy of time-limiting federal disability benefits as another option to reduce caseloads and promote increased work effort among people with disabilities. In accordance with the Congressional Budget Office's (CBO's) mandate to provide objective and impartial analysis, the memorandum contains no recommendations.

Daniel M. Mont of CBO's Health and Human Resources Division prepared this paper under the direction of Joseph R. Antos and Ralph E. Smith. The estimate of the budgetary effects from the illustrative policy option was prepared by Kathy Ruffing under the direction of Paul R. Cullinan.

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SUMMARY

The past decade has been a time of dramatic growth in federal disability programs. Both Social Security Disability Insurance (DI) and the Supplemental Security Income (SSI) disability program have experienced substantial increases in their caseloads and expenditures. The number of people receiving benefits in the DI program and the real value of the sum of all benefits, which are paid to people with disabilities who have worked enough to obtain insured status, grew by nearly 58 percent between 1985 and 1995. SSI, a means-tested program, saw its caseload of people with disabilities grow more than 92 percent and its total payments increase by more than two-thirds in constant dollars.

The Congress responded to that growth by considering a variety of proposals aimed at reducing the size of those programs. The 104th Congress enacted four such measures—denying disability benefits to drug addicts and alcoholics on the basis of their substance abuse, encouraging increased funding for continuing disability reviews (CDRs) of current recipients to determine whether they should still be receiving benefits, eliminating SSI benefits for most legal aliens, and tightening the eligibility for SSI benefits for some disabled children.

The Congress may also consider placing a time limit on benefits as a way to slow the growth in, or actually reduce, federal spending. That policy, if applied to disability payments, would halt benefits to participants in DI and the SSI disability program after a certain period unless they successfully reapplied to those programs.

The Congressional Budget Office (CBO) estimates that time-limiting disability benefits for future recipients ages 18 to 50, starting in 1998, could save \$1.6 billion over the 2001-2006 period. Under the time-limiting policy used to construct that estimate, certain applicants would be awarded benefits for only three years. After that period, they would have to reapply for benefits. The estimate assumes that the Social Security Administration (SSA) would follow an aggressive schedule of continuing disability reviews in accordance with recent legislation authorizing increased funding for that purpose. In other words, CBO made the savings estimate in comparison with a policy of having all beneficiaries who were classified as "medical improvement expected" or "medical improvement possible" undergo a CDR every three years. Compared with past practices, the savings associated with a time-limited policy would be higher.

Proponents of this approach believe that many people with disabilities could return to work if they were encouraged to do so, especially if there was an adequate financial incentive. In fact, a number of studies have shown that many people who report themselves as being disabled, some of whom have conditions that could qualify them for benefits, do work. According to the Survey of Income Program and Participation, about 44 percent of nonelderly adults with disabilities were employed

in 1992, and almost two-thirds reported that they were capable of working. Evidence suggests, however, that the previous work behavior of new recipients of disability benefits is intermittent. Moreover, according to a study by the General Accounting Office (GAO), fewer than half of those who apply for benefits and are unsuccessful return to work. The extent to which disability benefits reduce work effort is therefore limited. Nevertheless, researchers have suggested that about 10 percent to 15 percent of the recent drop in labor force participation among older men can be attributed to recent increases in disability benefits.

In the long run, requiring certain recipients of disability benefits to reapply every three years could lower participation in SSI and DI by at most 3 percent and increase the labor force participation of older adults by less than 1 percent. Although those effects are not trivial, they would not completely counter the high rates of growth that federal disability programs have experienced in recent years.

Another reason to place a time limit on benefits, according to proponents, is that a permanent period of reciprocity sends a strong antiwork message to applicants. Emphasizing that benefits are not considered permanent could create the expectation that people with disabilities should take steps to reenter the workforce. That message might change people's attitudes about returning to work and even their own self-worth.

The disadvantages of moving to a time-limited strategy stem from the added administrative work it would impose. The total number of reviews processed would rise significantly in an administrative system that is already overburdened. One result could be a rise in the number of applicants who were falsely denied or falsely granted benefits. According to GAO, more than 30,000 applicants in 1992 were either mistakenly denied or mistakenly granted federal disability benefits. If an increased administrative burden led to more mistaken denials, then more disabled people would be unable to obtain benefits but would still not be able to find work. Although a small percentage of recipients would be in that position, evidence indicates that most of them would end up in poverty and about one-fourth of them would have no health insurance.

Alternatively, increasing the burden on the present system for determining disability could result in an increase in the number of awards. During the 1970s, approving borderline cases was common practice. Limiting benefits might produce a similar outcome.

A larger problem could be gaps in coverage for those readmitted to the program or recertified if provisions are not made to continue benefits during the reapplication process. About 100 days elapse from the time applicants file for benefits until they receive them, but that period can extend to well over a year for

those who are initially denied benefits and then obtain them on appeal. Continuing benefits during the application process could create problems with overpayments that would then have to be recouped from people whose denials were not overturned on appeal. A related concern is the impact on the appellate process and workloads.

Another option for trying to encourage recipients of disability benefits to work would be to expand the use of CDRs even further. In fact, the Contract with America Advancement Act of 1996 (P.L. 104-121) authorizes a substantial increase in funding for CDRs and allows for adjustments to discretionary spending caps to accommodate increased funding. Indeed, extra funding was appropriated for CDRs following the passage of that law for 1996 and 1997.

An advantage of conducting more CDRs is that it eliminates the problem of gaps in coverage. The drawback is that the message sent about the expectation of recovery and return to work may be weaker. Also, as experience indicates, funding shortages can create large backlogs in CDRs. Under a policy of time-limiting benefits, recipients' benefits would automatically end unless they successfully reapplied. Processing the new applications would place the agency under more pressure than would keeping up to date with CDRs, since not processing new applications would cause many eligible people to not receive benefits. Failing to conduct a full complement of CDRs would not result in anyone's failing to receive benefits and so might not engender as much protest.

Another drawback of conducting more CDRs is that such a policy might remove a smaller percentage of recipients from the rolls than would placing a time limit on benefits. Under current law, the SSA cannot terminate benefits as a consequence of a CDR unless it can demonstrate that the recipient's medical condition has improved. The "medical improvement" rule presumably would not matter for reapplications; thus, the reapplication process under a policy with time-limited benefits might have a slightly higher termination rate than the current CDR process.

Time-limiting benefits or increasing CDRs in DI and SSI would probably decrease the caseloads and expenditures in both programs. Such a decrease, however, would not be sufficient to reverse the recent and substantial growth in federal disability benefits.

DISABILITY PROGRAMS ADMINISTERED BY THE SOCIAL SECURITY ADMINISTRATION

The number of people participating in the nation's two major disability programs, Social Security Disability Insurance (DI) and Supplemental Security Income (SSI), has grown dramatically in recent years. That growth has focused increased attention on federal disability programs. As a result, the Congress has considered a variety of proposals aimed at toughening eligibility standards and increasing reviews of recipients. In fact, the 104th Congress enacted four such measures—denying disability benefits to drug addicts and alcoholics on the basis of their substance abuse, encouraging increased funding for reviews of current recipients to ascertain whether they still qualify for the programs providing them benefits, eliminating SSI benefits for most legal aliens, and using stricter eligibility requirements for benefits for some disabled children.

A key concern of people wishing to reform federal disability programs is that some current recipients do not work, even though they are capable of doing so, because it would mean an end to their receipt of benefits. Evidence suggests that cutting benefits or restricting the eligibility of potential recipients would increase the work effort of a portion of those currently categorized as disabled. Although such a change in work behavior would not be trivial, additional evidence suggests that many people with disabilities would not return to work even if their benefits were eliminated. In fact, fewer than half of the people applying for disability benefits who are rejected return to work. According to a study by the General Accounting Office (GAO), less than 60 percent of those whose benefits are terminated through the current review process return to work, and those who do reenter the labor force have low earnings.

As a response to the rapid growth in disability benefits and the concern about scaling back benefits to people who are incapable of providing for themselves, some policymakers have suggested putting a time limit on benefits. Under such a policy, certain participants in DI and the SSI disability program would automatically stop receiving benefits after a certain period unless they successfully reapplied to the program. Time-limiting benefits, proponents argue, would encourage recipients to return to work. Opponents of that measure, however, claim that the accompanying administrative burden would impose serious costs on the disabled population and the Social Security Administration (SSA). An alternative route—further increases in the number of reviews—could have some of the advantages of time-limiting benefits without as many of the costs. That approach, however, would probably yield smaller savings.

Social Security Disability Insurance

Disability Insurance, which is administered by the Social Security Administration, provided over \$43 billion in benefits to people with disabilities and their families in 1996. Enacted in 1956, DI now covers about 95 percent of all workers. It is a component of what is generally referred to as Social Security or, more precisely, Old-Age, Survivors, and Disability Insurance (OASDI).

The DI program is similar to the retirement component of OASDI. All workers and their employers (including the self-employed) covered by Social Security pay a tax on wages that finances the program. In return, individuals receive benefits that partially replace earnings lost because of a disability. Participation in DI is not means-tested; that is, people qualify without having to fall below some income or resource threshold. Receiving benefits is a right for all workers who attain insured status and who meet the disability criteria.¹ After two years of receiving cash payments, participants also are eligible for Medicare.

The size of the payments beneficiaries receive is determined by their earnings history and the composition of their family. In 1995, the average monthly payment to insured workers was about \$680. Men's average benefits were higher than women's—\$760 per month compared with \$550—because men typically work more years than women and earn higher wages.

Disability determinations are made by state agencies known as disability determination services. Those agencies are under direction from the SSA and are subject to review. The definition of disability those agencies use is based on a person's physical and mental ability to work for pay. Specifically, successful applicants must be deemed unable to engage in "substantial gainful activity," which the SSA defines as generally earning more than \$500 per month. Although one definition of disability is supposed to apply nationally, federal court decisions cause standards to vary from region to region. Those varying standards are one reason that award rates differ significantly among states.

A disabling condition, however, is not always seen as permanent. In fact, about one-half of new recipients of DI benefits are categorized as "medical improvement expected" or "medical improvement possible." The SSA is required

1. Workers are insured for disability if they are fully insured for Old-Age and Survivors Insurance and have worked and been covered for a minimum of 20 quarters during the 40-quarter period ending in the month they became disabled. Workers under age 31 must have quarters of coverage equal to at least half of the quarters that elapsed between their 21st birthday and the onset of their disability. In no case, however, can benefits be paid to a worker with fewer than six quarters of coverage. A quarter of coverage in 1996 was equal to \$640 in earnings, not three months of work. A maximum of four quarters can be earned in a calendar year.

to conduct a continuing disability review (CDR) of those individuals every three years. The rest of the recipients, approximately one-half of the total, are classified as "medical improvement not expected" and are supposed to undergo a CDR only once every seven years. As discussed later, however, the SSA has built up a large backlog of uncompleted CDRs.

Several provisions within the DI program are designed to promote a return to work. Those provisions include:

- o Allowing work expenses related to a recipient's impairment to be subtracted from earnings when determining whether he or she is engaged in substantial gainful activity;
- o Allowing a trial work period during which earnings do not affect benefit levels and after which, for the next 36 months, former recipients can receive DI benefits during any month they do not engage in substantial gainful activity;
- o Extending Medicare coverage to former DI beneficiaries during this 36-month period plus three months, and allowing those not returning to the DI rolls to purchase Medicare coverage; and
- o Funding a vocational rehabilitation program that DI recipients are obligated to participate in if referred by a state disability determination service and accepted by the rehabilitation program.

Supplemental Security Income

Supplemental Security Income, which is also administered by the SSA, provides cash benefits to people with disabilities as well as to older people who have low income and few resources. Enacted in 1972 to replace the programs for the blind, disabled, and aged, it differs from OASDI in that benefits are not directly related to previous work experience and eligibility for the program is means-tested. In most states, people who also qualify for SSI automatically qualify for Medicaid as well.² Many states also give SSI recipients a supplemental payment in addition to the federal benefit.

2. Most states are required to include SSI recipients in their Medicaid programs. States, however, are allowed to use more restrictive eligibility requirements for Medicaid receipt if those standards were in place at the time SSI was enacted. There are 12 such states.

In December 1995, the average monthly payment to recipients of federal SSI disability benefits was approximately \$365. Adding in state supplemental payments raised the average amount received by those qualifying for federal benefits to about \$390.³

SSI has several provisions to encourage recipients to increase their work effort. Those provisions include:

- o Funding a vocational rehabilitation program that SSI recipients are obligated to participate in if referred by a state disability determination service and accepted by the rehabilitation program;
- o Allowing people who leave the program because of increased income or resources to return within 12 months without a new application if their income or resources fall back below the program's threshold;
- o Providing continued Medicaid benefits if earnings exceed the program's threshold, as long as former recipients are still certified to be disabled, have no other health insurance, and their income is insufficient to replace Medicaid benefits;
- o Excluding some resources from the means test if they are intended to be used for achieving self-support (for example, to purchase specialized training or equipment);
- o Excluding from the means test some earnings that are needed to cover certain work expenses; and
- o Reducing benefits by only half of earned income (over the \$65 disregard) as opposed to the dollar-for-dollar decrease for unearned income (over the \$20 disregard).

As of 1996, the SSA is also required to undertake a small volume of continuing disability reviews for SSI recipients. If the SSA finds recipients capable of engaging in substantial gainful activity, it terminates them from the program.

Some people receive both SSI benefits and DI benefits. Those people, referred to as concurrent beneficiaries, have worked enough to qualify for cash payments from the DI program, but those payments are not large enough to

3. Over 37 percent of recipients of federal SSI benefits in 1996 received an average of more than \$100 per month in state supplemental payments.

disqualify them for SSI benefits. Their SSI benefits are reduced, however, depending on the amount of money they receive from the DI program.

Recent Growth in Federal Disability Programs

The recent growth in DI and SSI has been striking. DI caseloads grew nearly 58 percent from 1985 to 1995, from almost 2.7 million to nearly 4.2 million. The number of new recipients in 1995 was about 646,000—over 71 percent higher than in 1985. As awards grew, the termination rate slipped, implying that people were receiving DI benefits longer.

Total benefits paid out by DI have risen at about the same rate as caseloads, after adjusting for inflation. In 1995, benefits totaled over \$40 billion—the largest amount ever paid out by the program.⁴ After adjusting for inflation, the increase over the amount paid out in 1985 was more than 50 percent.⁵ Average benefits over that period remained roughly the same in constant dollars.

Participation in the SSI program for the disabled also rose rapidly. From 1985 to 1995, the caseload grew 92 percent, from about 2.6 million to over 5 million.⁶ In 1995, payments to disabled SSI recipients totaled \$21 billion.⁷ That amount has increased every year for at least the past 15 years (see Figure 1).⁸ From 1990 to 1995, federal SSI payments to the blind and disabled increased by about two-thirds in constant dollars.

4. A total of \$34 billion was paid out in monthly benefit checks. The rest of the \$40 billion consisted of retroactive payments resulting from the lengthy process of determining disability.

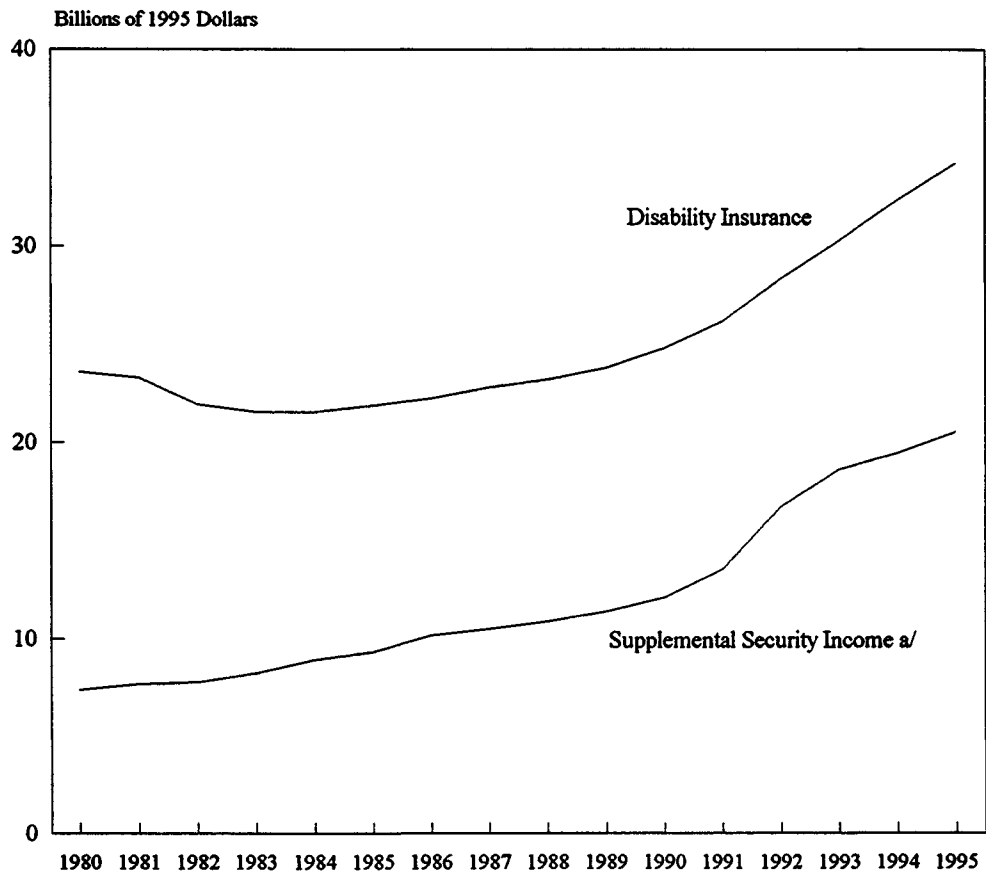
5. The consumer price index grew almost 42 percent from 1985 to 1995, from 107.6 to 152.4.

6. The disabled population in SSI includes roughly 700,000 people age 65 years or older. In the Social Security program, the disabled are converted to the Old-Age and Survivors Insurance program at age 65, but no such reclassification occurs in SSI.

7. The \$20 billion includes only federal SSI payments. An additional \$2.2 billion in state supplemental payments was administered by the federal government, and about \$350 million was paid directly by the states.

8. A small group of those beneficiaries, roughly 200,000 in 1995, receive state supplemental payments but no federal benefits.

**FIGURE 1. FEDERAL SPENDING ON DISABILITY BENEFITS FOR
DISABILITY INSURANCE AND SUPPLEMENTAL SECURITY
INCOME, 1980-1995**



SOURCE: Congressional Budget Office using data from the Social Security Administration.

a. Includes only federal payments. Supplemental payments made by states, even state payments administered by the federal government, are not included.

